

Performance Assurance Procedure

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Introduction

The purpose of this procedure is to define the roles and responsibilities, methods, tools, and requirements for conduct of oversight by the Pacific Northwest Site Office (PNSO). Performance assurance activities comprise oversight functions performed by PNSO to determine whether contractor programs and management systems, including assurance and oversight systems, are performing effectively and/or complying with DOE requirements. These activities include, but are not limited to, operational awareness activities, formal assessments, self-assessments, performance evaluations, surveillances, walkthroughs, and interface meetings.

The PNSO roles and responsibilities with respect to oversight are identified in the Office of Science (SC) Roles, Responsibilities, Accountabilities and Authorities (R2A2s) for SC Site Offices and are further defined in the PNSO R2A2s. The specific requirements for oversight are primarily defined in DOE O 226.1, *Implementation of Department of Energy Oversight Policy*, as well as other directives referenced in the PNSO Functions, Responsibilities, and Authorities (FRA) Document. The specific expectations for the Pacific Northwest National Laboratory (PNNL) contractor are defined in the PNNL Contract (DE-AC06-76RL01830). The outcomes of this procedure provide documented cognizance of contractor performance in support of the Performance Evaluation and Measurement Plan (PEMP).

It is the PNSO's desire to conduct oversight in a cost-effective, coordinated, integrated, and efficient manner that is seamless to contractors. To achieve this goal, the PNSO follows the PNSO Integrated Evaluation Plan (IEP) Procedure and develops and approves an annual IEP to describe the planned oversight activities for the year. A high value is placed on DOE managers and contractors working together to identify and ensure resolution of concerns, and this is reflected in the planning process. Both DOE and contractor managers must acquire and maintain sufficient knowledge of program activities in order to make informed decisions on resources for these activities. The Department's line managers fulfill their responsibilities in part through line management oversight and have unfettered access to information and facilities in a manner consistent with safety and security requirements. The contractors' line managers fulfill their responsibilities in part through the implementation of self-assessment programs.

The contractor self-assessment program provides a cornerstone for performance assurance. The most effective and efficient DOE oversight program can be realized when a vigorous contractor self-assessment program is in place, similar to those used in

successful companies. Therefore, validation of the contractor's assurance processes is a critical piece of DOE's oversight program. DOE line oversight and contractor self-assessments together assure that field elements and contractors are adequately implementing the appropriate contractual requirements.

Applicability

This procedure applies to PNSO personnel who plan, conduct, and provide contractor oversight in order to assure performance to contractual requirements. These activities require independent judgment and interpretation of contractor performance to support contract administration activities such as, but not limited to, compliance with laws and regulations, authorization of work, and determination of contractor award fee. While this procedure does cover performance assurance activities which support many contract administration activities, it does not cover specific work authorization and fee evaluation requirements which are prescribed through other specific PNSO procedures and program documents.

Required Procedure

Conduct contractor performance assurance activities following the steps below.

Step #	Description	Performer	Support
Step 1	<p>Set Expectations</p> <p>1. Develop performance objectives, measures, and expectations, tied to Departmental strategic goals and objectives, as well as to performance goals and objectives of management system or program elements. Mutual agreement is reached on expected performance. Expected performance is based on sound understanding of goals, identification of needed improvements, and prioritization of improvements within resource constraints. Examples of common methods used to document agreement are as follows:</p>	Site Office POC	N/A

	<ul style="list-style-type: none"> • Review and agreement on contractor Level 1 Templates, <u>Self-Assessment Plans & Program Documents</u>. • Agreement through contractor <u>Performance Management Plans</u> • Development of <u>Partnership Agreements</u> with contractor <p>2. Develop and negotiate contract performance measures and performance indicators that are linked to the DOE contractual requirements. This objective is primarily achieved through:</p> <ul style="list-style-type: none"> • Development of the annual <u>PEMP Plan</u> 		
Step 2	<p>Conduct Performance Assurance Activities As scheduled in the PNSO Integrated Evaluation Plan (IEP).</p> <p>Develop a high level of performance assurance, which results in improved operational and programmatic performance. Performance should be evaluated monthly against expectations, with specific emphasis on performance against the PEMP and Management Representation Assertions on a quarterly basis. In general, the contractor self-assessment process, once validated, can be relied upon to provide the majority of assurance that is needed, while other direct assessment and analysis activities provide additional assurance and credibility to the process results. Performance assurance is achieved through the following types of activities:</p>	Site Office POC	N/A

	<ol style="list-style-type: none">1. <u>Primary Assurance</u><ul style="list-style-type: none">• Data and results provided through the self-assessment and performance management process. See Review Plan Attachment D2. <u>Additional Assurance</u><ul style="list-style-type: none">• Analysis of contractor requirements management process (<u>Records of Decision</u> (RODs)) to determine if management systems and programs are meeting the intent of contractual requirements• <u>Interface Meetings</u> with counterparts to discuss status of progress on performance expectations (including formal quarterly progress reviews)• Participation in <u>Assessments and Reviews</u> of management systems, operations, programs, or facilities (including peer reviews, operational readiness reviews, investigations, audits, etc.)• <u>Surveillances and Walkthroughs</u> of facilities and operations• <u>Review and Discussion of Reports</u> prepared by contractors, facility representatives, subject matter experts, external organizations, and other specialists• Review and maintain awareness of <u>external</u> as well as <u>internal assessments</u> and reviews at the Laboratory.		
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	<ul style="list-style-type: none"> • Conduct of <u>Formal Assessments/Reviews</u> as appropriate (e.g., Accident Investigations, For-Cause Reviews, 2-Week Validations, etc.) • Quarterly reviews relative to <u>Management Representations Assertions</u>. These reviews although not additional to the self assessment and performance management activities, should be documented in the capture tool specifically to the assertion. This will assure traceability for response for the annual Management Representation Letter. (see attachment E) 		
Step 3	<p>Document Results</p> <p>All performance assurance activities must be documented in order to demonstrate adherence to DOE requirements, SC expectations, and internal PNSO performance requirements. Documentation should be timely and completed in such a way as to be auditable and facilitate crosscutting and laboratory level performance analysis. The PNSO standard method for documenting oversight and assurance activities will be the use of the PNSO Capture Tool. (See example in Attachment C relative to expectation for documentation entered into the Capture Tool.)</p> <p>Significant results should be communicated with other PNSO</p>	Site Office POC	N/A

<p>staff (e.g., Subject Matter Experts (SMEs, Facility Representatives (FRs), Program Managers) through email messages, weekly staff meetings, or Critical Item Reports, as appropriate. In addition, formal reports requiring contractor corrective actions (e.g., Facility Representative Surveillances) should be formally transmitted to the contractor. Other performance issues should be communicated directly to contractor counterparts.</p> <p>PNSO personnel as a part of continuous improvement should identify and report opportunities for improvement, deficiencies or conditions adverse to quality as they surface during work, or during self assessment. This is done by submitting Lessons Learned to the PNSO POC for Lessons Learned to be disseminated to the entire staff.</p> <p>The Lessons Learned POC will work with the PNSO Communications POC to find resourceful ways in relaying the message to the Site Office. This may be done by using the communications bulletin board, e-mail, staff meetings and any other venues that would enable getting the message out.</p> <p>These lessons learned are to be documented in the capture tool by the PNSO POC. Lessons learned are a supplement to corrective action management and encourage and reinforce feedback of experience into the appropriate management systems. (see attachment B for Lessons Learned</p>		
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	<p>Program)</p> <p>Tracking of PNSO corrective actions will be performed utilizing the Capture Tool. Tracking of contractor corrective actions will generally be through the contractor Assessment Tracking System (ATS). Corrective Actions resulting from external DOE assessments are tracked in various Headquarters tracking systems (e.g., EH Corrective Action Tracking System, Safeguards and Security Issues Management System, and Non-Compliance Tracking System), as required. (see Attachment A for PNSO corrective action process)</p>		
Step 4	<p>Conduct Analysis</p> <p>Site Office personnel will be required to develop a summary analysis for each program element (ALD) and management system on a bi-annual basis. This summary will be entered into the Capture Tool and will support the PEMP evaluation. (see Appendix D)</p> <p>The PNSO Annual Assessment Analysis (AAA) Team will analyze the results of the individual PNSO summaries to look for positive/negative trends. The team, comprised of SO personnel, will then provide feedback to the PEMP administrator and to PNSO management.</p>	Site Office POC	

PNSO Corrective Actions

Introduction

This process covers all PNSO issues and contractor issues identified by external agencies that require formation and administration of corrective actions. This process describes the required PNSO corrective action process, which collects data on issues and resultant corrective actions. Headquarters issues and all contractor issues generated by external sources will be managed in accordance with this process.

Issues are generally generated by assessment or surveillance, but can also result from an accident investigation, lessons learned, program/process analysis, or management assignment. Issues generated by assessments, surveillances, accident investigations, or lessons learned must be processed using this crosscutting process. Management may use the corrective action process to administer issues generated through analysis or direction.

Contractor-related issues, corrective actions, and the corresponding responsibilities and schedules are maintained in the PNNL Action Tracking System (ATS). In addition, these actions are also tracked in various Headquarters tracking systems (e.g., EH Corrective Action Tracking System, Safeguards and Security Issues Management System, and Non-Compliance Tracking System), as required. Any PNNL-related actions identified by PNSO that are not tracked in ATS or one of the Headquarters systems are tracked via the PNSO Capture Tool. Issues may be derived from internal or external action (Headquarters, regulators, Defense Nuclear Facilities Safety Board, Inspector General, General Accounting Office, etc.). In addition, lower level issues that may be pre-cursors may be identified by PNSO staff and tracked via the PNSO Capture Tool. PNSO is moving towards the development and usage of a better defined tracking system. This system will provide for trending and tracking capabilities not currently available through the use of the Capture Tool. PNSO uses the DOE G 414.1-5 *Corrective Action Program Guide* to assist in the development, implementation, and follow-up of corrective action programs.

Improvement Action Management Process

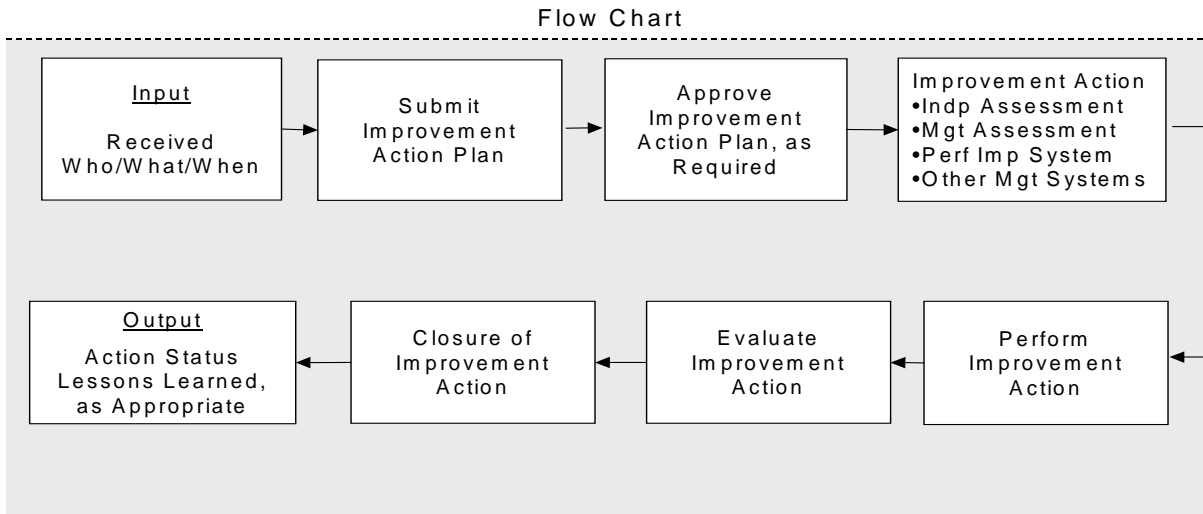


Figure 1

Lessons Learned

Purpose

The purpose of the Pacific Northwest Site Office (PNSO) Lessons Learned program is to supplement corrective action management and encourage and reinforce feedback of experience into the appropriate management systems.

This program description describes the general program expectations and implementation methods associated with the PNSO Lessons Learned program.

Program Overview

The requirement for feedback and continuous improvement is inherent in 48 CFR 970.5223-1, *Integration of ES&H into Work Planning and Execution*, and DOE Policy 450.4, *Safety Management System Policy*. Further amplification of intent can be found in the *Integrated Safety Management System Guide*, DOE-G-450.4-1B, Chapter II, Section 6, Appendix D, Section 4.4, and Appendix G, Sections 3 and 4. The objective of this program description is to satisfy the requirements identified above as they pertain to feedback from lessons learned, which are not treated within the context of the Corrective Action Program.

The lessons learned process begins when individuals experience adverse conditions, generally as a result of inadequacies in the management system governing the process in which the individual is engaged. The individual experiencing the adverse condition may have later produced a product that leads to a positive outcome.

As work is performed, PNSO employees identify and report opportunities for improvement, deficiencies, or conditions adverse to quality. These worker-identified changes surface during the work, during post-task reviews, or during self-assessments. Work process improvements at this level often require minimal effort to realize and can be effected in a short time. In general, evaluation of issues at this level focuses on the immediate cause and the action necessary to improve the situation. Such events are considered part of the normal work environment and do not qualify as “lessons learned”. To qualify as a “lessons learned” event, there should have been a programmatic impact with obvious financial consequences that are non-trivial in nature, generally manifested as a schedule delay associated with substantial rework. While DOE Policy 450.4 is primarily concerned with safety management, it embodies principles of good management that are applicable to all management activity. DOE Policy 450.4 states under the core functions:

“Provide Feedback and Continuous Improvement. Feedback information on the adequacy of controls is gathered, opportunities for improving the definition and planning of work are identified and implemented, line and independent oversight is conducted, and, if necessary, regulatory enforcement actions occur.”

The lessons learned program is focused on the “opportunities for improving the definition and planning of work” and ensuring they are “identified and implemented”. For the purposes of this program description, “work” is intended to include all activities performed by PNSO personnel in the performance of their assigned duties. Given that the lessons learned process is generally initiated as a result of inadequacies in the management system, the objective of lessons learned is to ensure the system inadequacies are remediated. A “lessons learned” will usually be associated with an adverse experience that had to be “learned the hard way”. If the lesson learned can be attributed to inadequacy or unavailability of requirements, procedures, or processes, there is a prospect of preventing recurrence of the adverse consequences of the event by providing feedback and/or continuous improvement, e.g., by either creating or making improvements to the requirements, procedures, or processes. The resulting improvement action may be of such significance that it warrants widespread promulgation.

When an individual believes a “lessons learned” event has occurred, it is incumbent upon the individual, within the context of his or her responsibilities under DOE Policy 450.4, to take whatever action is indicated to correct the source of the problem. In most cases, such action would be taken by the organization (Division or Office) of which the individual is a part. The action would be directed at the offending component of the management system responsible for or that caused the difficulty. In most cases, this would be Directives, rules, regulations, Guides, Manuals, or standards. The action taken should be directed toward saving another individual or group from being obliged to learn the hard way a second time. A lesson that is learned the first time may itself be a result of a changed or evolving policy, which the affected party is implementing for the first time. If this is the case, there is a fairly high probability that someone else will follow, who would benefit from the lesson learned. The act of correcting the offending management system component has the effect of sharing the experience with others, who use the system. The level of management involved in initiating the improvement action is dependent on the identity of the offending management system component.

PNSO may choose to draw upon the lessons learned database, accessible through the [Department of Energy Lessons Learned Information Services](#) homepage, [PNNL Lessons Learned](#) web site or the [Project Hanford Lessons Learned](#) web site. These homepages link the lessons learned programs across the DOE complex through the DOE Lessons Learned List Server and provide links to external lessons learned information resources. The DOE Lessons Learned Homepage supports DOE-STD-7501-99 and is routinely monitored by the POC for this program description. The POC for this program description will forward pertinent information received from the List Server applicable to PNSO, as appropriate. Pertinent information will ordinarily not include information primarily of interest to the contractor organizations, which have their own lessons learned programs. If sharing of PNSO lessons learned information with other DOE sites could

help avoid recurrences elsewhere in the DOE system, PNSO should do so through the Lessons Learned POC. Lessons Learned are submitted to the PNSO POC to be disseminated to the entire staff. The Lessons Learned POC will work with the PNSO Communications POC to find resourceful ways in relaying the message to the site Office. This may be done by using the communications bulletin board, e-mail, staff meetings, website and any other venues that would enable getting the message out.

The Lessons Learned Program described in this description is not intended to fully conform to DOE-STD-7501-99.

Program Objectives and Metrics

The objective of the PNSO Lessons Learned Program is stated above in the overview. The method for measuring its effectiveness is the ratio of the number of successful improvements to the management system and the number of occasions the program has been activated. The use of this metric is optional with all PNSO organizational components.

Key Responsibilities and Relationships

All PNSO employees, through their supervisors, are responsible for identifying and implementing actions that improve the definition and planning of work that arises as a result of actually performing or attempting to perform the work. This is inherent in the fifth core function of DOE Policy 450.4. If sharing of PNSO lessons learned information with other DOE sites could help avoid recurrences elsewhere in the DOE system, PNSO organizations should do so through the Lessons Learned POC.

The PNSO Quality Assurance Program Description requires that PNSO employees identify to line management, positive and negative potential lessons learned (based on experiences, activities, processes and practices that fit the definition of lessons learned), support generation of lessons learned documentation, share lessons learned, review lessons learned documents for applicability and/or implementation, and incorporate applicable lessons into work planning and execution.

Supporting Guidelines

Document Number	Document Title
DOE Policy 450.4	Safety Management System Policy
DOE Guide 450.4	Integrated Safety Management System Guide

Documentation Guidance for the Capture Tool

What should you document in the Capture Tool?

In addition to the standard data fields (e.g., name, date, performance element, organization, etc), the Capture Tool contains narrative fields for each Oversight Report. The following is a description of what should be included in each narrative field:

- **Description of Oversight Activity:** This section should describe in detail what was done and why. (e.g., What was the oversight activity? Who was involved? Where was it conducted? Was it formal or informal? Why was the oversight activity conducted? Was it required, routine, issue-based, or other? What was the purpose and value of the activity? What oversight responsibility did this achieve? Did it serve that purpose?)
- **Observations:** This section should describe in detail the outcome of the oversight activity (e.g., What was observed? What were the expectations? Were the expectations met? If not, what was missing? etc.). This section should also describe how this activity has helped you fulfill your oversight responsibilities.
- **Notable Performance or Concerns:** This section should be short, fact-based statements regarding the outcome of the oversight activity (e.g., what were the specific problems or notable performance that was noted?). These statements should be similar to issue or finding statements in formal assessment reports.
- **Corrective Actions:** If there are no corrective actions, this section should be left blank. If there are corrective actions, this section should describe the actions, who is responsible, and when they are due.

How are the various Oversight Activities defined?

1. Analysis of contractor requirements management process (Records of Decision (RODs)) to determine if management systems and programs are meeting the intent of contractual requirements. The following should be helpful when documenting information relative to ROD's into the Capture Tool.

Recommended steps for the validation process:

1. Review the ROD(s) for the assigned management system(s).
2. Read the specific reference requirement(s) in the Contract.
3. Determine if the identified actions are appropriate.

4. Meet with your Lab counterpart and discuss your findings
5. When you have completed your review, enter your evaluation in the Capture Tool

How to get to the ROD Query Tool:

Go to Lab web, Topic Index View, then go to Enter Policies & Procedures (SBMS), click on Management System Descriptions, scroll down to the end and click on Additional Information for Management System Owners, and then click on ROD Query Tool. Your user name is: pns0+0066644 (your Hanford ID), your password is: your regular password for PNNL. To gain access to the RODs, click on I Agree and you will be able to search within your management system RODs

2. Interface Meetings with counterparts to discuss status of progress on performance expectations (including formal quarterly progress reviews)

The types of information that should be entered into the tool would be the evaluation of the information that is provided during that meeting/discussion. When you are discussing performance metrics /expectations you would need to document your evaluation of whether you agree or disagree, why, and what are the steps to reaching some agreement between you and your counterpart. Other things to be documented would be outcomes of assessments or reviews and/or upcoming assessments and the scoping. The key here for documentation into the Capture Tool is to not just document the fact that you met, but to describe the purpose and outcome of the meeting in sufficient detail for a reader to understand the value.

3. Participation in Assessments and Reviews of management systems, operations, programs, or facilities (including peer reviews, operational readiness reviews, investigations, audits, etc.)

The information that is entered into the Capture Tool when you participate in a review should be documented from your perspective as to what occurred, given your oversight experience in that particular area. You should document the conclusions of the assessment/review and also attach the report if one is generated.

4. Surveillances and Walkthroughs of facilities and operations.

Facility Representatives (FR) weekly Critical Item Reports (CIRs) and periodic surveillances are entered into the Capture Tool per FR reporting requirements. These requirements are documented in FRI-009.

5. Review and Discussion of Reports prepared by contractors, facility representatives, subject matter experts, external organizations, and other specialists.

The Capture tool entry for this type of oversight would basically be a summary of the conclusions you arrive at through your review/discussion of the reports. The Goal is that we review these reports to have a better awareness of what is being found in our oversight areas and also to get the perspective of others who also have responsibility for oversight.

6. Conduct of Formal Assessments/Reviews as appropriate (e.g., Accident Investigations, For-Cause Reviews, 2-Week Validations, etc.)

Formal Assessments/Reviews will be documented into the capture tool at a summary level. (i.e. conclusions, findings, scoping) The actual assessment report must be attached to ensure completeness of documentation.

Note: The PNSO Programs Division has developed specific requirements relative to their oversight of Initiatives and Project Quality Reviews.

Review Plan for Performance Assurance of Laboratory Self-Assessment (Performance Management Process)

***This plan is to be used to support your normal oversight activities. Your assessing/inquiring/gathering to support your conclusions relative to your respective areas of oversight should be continuous. This plan ensures we are all aware of our oversight expectations in this area and document them consistently.**

Introduction

This plan is to be used to guide assessors in providing objective evidence that an effective contractor performance management process has been and continues to be, implemented. Assessments conducted in accordance with this plan will satisfy the requirements of the DOE O 226.1, *Implementation of Department of Energy Oversight Policy*, and DOE O 414.1C, *Quality Assurance*. One of principles of DOE O 226.1 is that DOE and the contractor develop and implement a comprehensive and rigorous assurance system.. PNSO's oversight process identifies ways to make programs more effective and/or efficient and report such opportunities to line managers for their consideration. Line managers at all levels- from the Secretary of Energy to the responsible DOE program office to the responsible field element to the contractor are responsible for using the results of DOE line and independent oversight processes and contractor assurance systems to make informed decisions about corrective actions and the acceptability of residual risk and to improve the effectiveness and efficiency of their programs and site operations.

Scope

Staff at the Pacific Northwest Site Office will conduct a Performance Assurance Review of Laboratory's Self-Assessment semi-annually. Reviewing self assessment means that we are assessing the Lab's performance management process. In looking at the performance management process, we are ensuring that a rigorous, robust and creditable performance measurement process that demonstrates the effectiveness and efficiency of management controls and product delivery is established. The PNSO conducts performance assurance oversight for 20 PNNL management system areas (including Integrated Safety Management, Worker Safety and Health, Facility Safety, Environmental, etc.) and conducts oversight of 5 programmatic areas (Environmental Technology, National Security, Fundamental Science, Energy Science and Technology, and Computational and Information Sciences). The review is designed to evaluate the contractor's performance assurance processes. The review will evaluate whether it reflects satisfactory implementation of contract requirements through management systems and programs.

Method

In accordance with the Performance Assurance Procedure, PNSO personnel should periodically validate the contractor self-assessment process related to the management systems and program areas they oversee. The PNSO Performance Assurance Procedure,

which identifies specific requirements for setting expectations, conducting performance assurance activities, documenting results, and conducting analysis of results. This oversight process requires PNSO to make independent judgments regarding the adequacy of contract requirements, the appropriate translation of those requirements into management systems and processes, and the effectiveness of implementation.

This assessment will focus on the “effectiveness of implementation” part of the oversight process. The assessment will be documented in the capture tool in accordance with this review plan. Any areas of concern will be provided to the assessed organization. PNSO personnel, as a part of continuous improvement should identify and report opportunities for improvement, deficiencies or conditions adverse to quality as a result of this review. Effectiveness in implementation of the contractor Self-assessment (performance management process) will evaluate whether:

- Established Objectives for the Management System/Program are in place.
- Performance Measures and Performance Indicators support the achievement of the objective (indicates whether or not progress is made against annual performance objectives made by the system)
- Self Assessment Plans content support/validate the objective of the Management System /Program
- Management System/Program self evaluation occurs to determine their effectiveness (tools, processes, extent of deployment, Progress against performance objectives)
- Independent Evaluation of the System/Program occurs where appropriate
- Continuous Performance Improvement processes are in place (opportunities for improvement are being identified, systematically addressed, and improved performance is achieved)

The assessment should answer the following questions:

1. What are the current year performance objectives for this management system/program?
2. What are the associated performance targets and metrics?
3. What was actual performance against these?
4. Implementation
 - a) What is the management system’s/program’s process for assessing how/to what extent end users/line organizations implement your management system requirements?
 - b) What are the results of this assessment?
5. What evidence is used to determine that Management Systems’ tools and training are utilized?
6. What is the progress on ongoing corrective actions and improvement efforts? *Note title, scope, progress, issues and ATS number where applicable:*
7. Are there other emerging issues potentially affecting performance? *Issues, risks, positive changes:*

8. Are the results obtained through the self-assessment process valid? Have the results been compared to independent analysis to confirm the validity of the self-assessment process?

Review Plan for Performing Assessment of Financial Reporting Requirements (Management Representation Assertion Process)

Purpose

This plan is to be used to guide PNSO staff in providing auditable evidence that an effective contractor performance management process has been and continues to be implemented to address the management representations.

PNSO is required to report financial and performance management in accordance with the Performance and Accountability Report (PAR), Office of Management and Budget (OMB) Circular A-136-Financial Reporting Requirements and other financial requirements as it pertains to the Management Representation Assertions. Circular A-136 establishes a central point of reference for all Federal financial reporting guidance for agencies required to submit audited financial statements, interim financial statements (quarterly), and Performance and Accountability Reports (PARs) under the Chief Financial Officers (CFO) Act of 1990 as amended by the Government Management Reform Act (GMRA) of 1994, the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act.

Background

The Chief Financial Officers Act of 1990, as amended, requires the major agencies of the Federal Government to prepare and submit audited financial report to OMB discussing the Government's financial condition and operations for the fiscal year and includes consolidated financial statements and related disclosures, as well as reports on stewardship responsibilities.

Financial Statements

As part of the required financial statement submittal, it is required for the Department of Energy, headquarters to provide the following assurances to OMB: 1) An assessment of whether the financial and performance data in the statements is reliable and complete, identify material control weaknesses, and actions PNSO is taking to resolve them, 2) an assurance for the Federal Managers Financial Integrity Act (FMFIA) which identifies whether the effectiveness of management's internal controls support the effective and efficient programmatic operations, reliable financial reporting and compliance with applicable laws and regulations, and whether the financial management systems conform to financial system requirements (this is identified in DOE Order 413.1A) and 3) OMB Circular A-123 assurance is required which will identify a summary of material weaknesses and non-conformances, and a summary of corrective actions to resolve the material weaknesses and non-

conformances (this requirement will be incorporated in DOE Order 413.1A in the future). The results for statement 2 and 3 above generally take one of the following forms (this is determined at HQs): statement of an “unqualified” assurance (no material weaknesses noted); “qualified” statement of assurance (material weaknesses were noted but not pervasive), or statement of “no” assurance (no assessment process is in place or noted material weaknesses were pervasive).

Quarterly Assessments

PNSO will conduct quarterly and yearly assessments to validate the effectiveness of the financial statements in the contractor daily operations to enable DOE to determine whether or not the assurances can be made at year-end. These assessments will review the management representations (assertions), as part of the normal PNSO management system oversight. The results of the assessments will be entered in the Capture Tool by the third week following the end of each quarter with the exception of the yearly assessment, which is due on September 20th of each year. The assessment should address: 1) analysis of the contractor’s internal controls and their effectiveness related to each assertion, 2) identified deficiencies in internal controls and its impact to the assertion, 3) areas for improving the internal controls in the future to prevent deficiencies, and 3) risk to the Site Office in disclosing the deficiencies to SC. In addition, all areas of concern should be provided to the assessed organization and the appropriate PNSO staff.

PNSO Management System Oversight

Staff is responsible for performing these assessments on a quarterly basis as part of their oversight of the management systems. The quarterly assessments should be rolled up into the yearly assessment, which is due by September 20th of each year.

Suggested Lines of Inquiry

The assessment should at a minimum perform the following:

- Review contractor’s documented internal controls (policies, procedures) against requirements for each assertion
- Review contractor’s internal/external assessments that validates that this assertion can be made by the end of September
- Verify/Validate that the contractor’s internal controls are effective. This will include conducting periodic assessments throughout the year to validate the effectiveness of current controls.
- Identification of all documents reviewed in the assessment

The assessment should answer as many of the applicable questions:

- Where is the requirement for this assertion captured in the management system (contract, record of decision, SBMS, CFR, OMB, FAR, etc.,)?
- How did the laboratory test the effectiveness of the controls (self-assessment, management system assessment, A-123 testing, external reviews, etc.,) and were the assessments adequate?
- Do the controls have the ability to capture/detect abnormalities/non-compliances?
- Is there a process in place to prevent abnormalities? (For example; project overruns, projects beginning prior to obtaining approval, unallowable cost, etc.,)
- How are the abnormalities disclosed to DOE and determine if they will impact DOE's ability to make this assertion?
- Were there any internal/external reviews that identified internal control weaknesses that will impact PNSO's ability to make this assertion in September?
- If deficiencies were identified was there a corrective action plan developed to remediate deficiencies?
- What actions can be taken by PNSO to remediate risk of disclosing?
- Does PNSO need to disclose internal control deficiency to SC as part of the Management Control Program (DOE Order 413.1A)?

Definitions

For the purpose of this document below is an itemized list of definitions:

Assurance Report-is an annual report from heads of Departmental elements on the status of management controls and financial management system (s) within their respective programs and administrative functions.

Control Gaps-internal controls should be designed to detect and prevent a material misstatement from entering the financial statements and financial reported used by the organization. A control gap exists when a control for a given financial statement assertion does not exist, does not adequately address a relevant assertion, or is not operating effectively.

Internal Control Deficiency-exists when the design or operation of a control does not allow management or employees in the normal course of performance their assigned functions, to prevent or detect misstatements on a timely basis.

Management Controls (internal controls)-are the organization, procedures and methods managers use to achieve their goals. They include processes for planning, organizing, directing, and controlling operations. Management controls are designed to reasonably assure that programs achieve intended results; resources are used consistent with DOE's mission and are protected from waste, loss, unauthorized use, and misappropriation; laws and regulations are followed; and decisions are based on reliable data. Management controls apply to all programs and administrative functions.

Material Weakness-A reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

Remote likelihood-as the chance of a future event, or events, occurring is slight.

Reportable Condition-an internal control deficiency, or combination of internal control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such as that there is more than a remote likelihood that a misstatement of the entity's financial statements or other significant financial reports, that is more than inconsequential and will not be presented or detected.

Reportable Nonconformance-is a financial management system nonconformance with Office of Management and Budget and General Accounting Office requirements that is of concern to the next higher level of management.

EXAMPLE

Results of the yearly assessment for assertion number 8:

“The Department indemnifies its management and operating contractors against financial responsibility from nuclear accidents, under the provisions of the Price-Anderson Act. Except to the extent otherwise disclosed in the Legal Representation Letter and in the Non-Monetary Loss Contingency Report submitted to the Inspector General by the Department’s program offices, I am aware of no liabilities or loss contingencies resulting from this indemnification.”

This assessment is designed to determine whether or not the assertion is adequate based on the following information:

- (1) Contractor’s documented internal controls (policies, procedures) against requirements are adequate to make this assertion
- (2) Contractor’s internal/external assessments validate that this assertion can be made by the end of September and whether weaknesses identified will impact making the assertion.
- (3) PNSO’s validation of contractor’s internal controls conclude that they are effective

Observation/Conclusion:

The following oversight activity, interviews and observations provides the information needed to conclude the assertion is acceptable: Description of Oversight Activity: PNSO completed the review of documentation (controls) supporting the assertion #8, listed in the attachment to the 2005 Management Representation letter-action from the PNSO Financial Rep. Assertion #8: The Department indemnifies its management and operating contractors against financial responsibility from nuclear accidents, under the provisions of the Price-Anderson Act. Except to the extent otherwise disclosed in the Legal Representation Letter and in the Non-Monetary Loss contingency Report submitted to the inspector General by the Department's program offices, I am aware of no liabilities or loss contingencies resulting from this indemnification.

There were initial discussion with the PNNL PAAA Program Manager on this particular assertion on August 4, 2006. A follow-up interview was conducted on Tuesday September 19, 2006. The program manager provided assessment information and discussed objectives/metrics used by the program to understand its effectiveness. PNSO reviewed documentation such as the PAAA Standards Base Management System Subject Area and the assessments within PNNL's Action Tracking System (ATS). PNSO also attended a PAAA working group meeting on September 19, 2006. At this meeting the Program Manager reported against the PAAA metrics currently in place. The Working Group's meeting takes those issues elevated by staff in ATS for consideration of Office of Enforcement (OE) PAAA NTS reporting. PNSO also participates in NTS closure meetings. These meetings provide DOE the opportunity to review the entire closure package actions and either provide concurrence or request more information if gaps are recognized. Specific ATS reports reviewed: 13855 FY06 Review of Assessment/Corrective Action Management Data in ATS, 16970 Issue PAAA subject area revision - 10 CFR 851 implementation, 10445 PAAA Noncompliance for deficiencies in software control, 6804 Accomplish Commitments in PAAA Improvement Plan. PNSO also reviewed Control #CLC269 [Purpose: To verify that PNNL maintains Assessment Tracking System (ATS) that is used for significant actions resulting from communications with external entities to track actions to closure. TO verify the "evaluation of the effectiveness of corrective actions to prevent recurrence" is conducted on as needed basis.

Data shows staff are accurately identifying issues that should be brought to the attention of the PAAA Working Group. When representatives of the Office of Enforcement conducted the PAAA Program review in late September 2005, they stated verbally that they thought the PNNL PAAA Program was strong, but they also identified a couple of issues they thought should have been reviewed by the Working Group. The issues were reviewed by the Working Group and remained as locally reportable. In FY05 22 issues were brought to the Working Group for discussion. In FY06, current performance indicates there will be a similar number of issues reviewed. Of the five nuclear NTS reports submitted so far in FY06, all have been revealed through self-assessment activities. In August, PNNL submitted an NTS that was discovered via an issue identified by a staff member. The PAAA Program Office also maintains a chart of the time from issue identification in the field to the Working Group decision on NTS reportability, and from the Working Group decision to entry into the NTS. PNNL is currently conducting a review of NTS reports to verify if effectiveness reviews were conducted as planned and verify the adequacy of the reviews. PNNL created a scoring system using our best knowledge of OE expectations to evaluate each NTS and determine the likelihood that the NTS would attract OE attention. The scoring system uses red, yellow, and green to reflect the perceived risk of each NTS. At the end of July in FY06, PNNL determined there were five NTS reports with a nuclear nexus. Of these reports, all were self-identified and green. Verbal contacts with OE have not revealed any special interest in PNNL.

PNNL is not subject to civil penalties under the current contract. There are no material weaknesses in either the design or operation of PNNL's PAAA Program for reporting PAAA related issues.

Notable Performance: The process that PNNL has in place provides DOE the opportunity to get a briefing from the owner of an NTS when the corrective actions are established and when they are completed. This allows DOE to ask for more information if needed and provide input as to the effectiveness of the actions taken.

Document Approval Form

1. Document Type:

- ☐ Guiding Document ☐ Planning Document ☒ Procedure
☐ Other (describe): _____

2. Document Title: Performance Assurance Procedure

3. Document Number (obtain # from PNSO Document Coordinator): PNSO-PCDR-02

4. Brief explanation and justification (explain purpose of new document, revision, or cancellation):

This procedure has been revised to incorporate assessment expectations relative to the Management Representation Assertion Process.

5. Request submitted by:

Carrie Swafford-Bennett

Name (Print)

Carrie Swafford-Bennett

Signature

30 Jan 07

Date

6. Requirement document(s): Does a requirement (or requirements) drive this document? If so, please specify (e.g., legal requirement, R2A2, directive, etc.)

- ☒ Yes Please specify: DOE O 226.1
☐ No

7. Actions identified for document implementation:

- ☒ "awareness or briefing approach" (classroom training, all-hands-staff meetings, one-on-one, computer based, self-study)
☐ revisions to other processes and procedures, program descriptions, or other documents
☐ other, explain: _____

8. Representative user concurrence:

Neomi Mendez

Name (Print)

Neomi Mendez

Signature

1/30/07

Date

Note: A representative user's concurrence is not necessary for minor revisions or cancellations.

9. Division Director concurrence

Roger F. Christensen

Name (Print)

RFC Christensen

Signature

1/31/2007

Date

Debbie E. Trader

Name (Print)

DE Trader

Signature

2/6/07

Date

Note: Concurrence is required by any Division Director who will be subject to requirements contained in the document.

10. PNSO Site Office Manager approval:

Julie K. Erickson, Acting

Name (Print)

Julie K. Erickson

Signature

2-16-07

Date

Note: Signature approves this document for deployment on the PNSO internal portal.